



D. KENT MICHIE
Insurance Commissioner
Utah Insurance Department

JON M. HUNTSMAN, JR.
Governor

Summary of Legislation

H B 201 LIFE INSURANCE AND ANNUITIES LAW AMENDMENTS

Representative Jim Dunnigan

Background

- The commissioner was given rule-making authority regarding the materials used in the solicitation and sale of life insurance. This authority was meant to be permissive, i.e. if market conditions warranted, a rule could be written; however, if the market functioned appropriately, no rule would be needed. As written in 2004, the commissioner was required to write a rule. This change corrects the wording to meet the original intent of the 2004 legislation.
- Many consumers do not know the type of life insurance or annuity product that they purchase, nor do they have an easy way to identify significant policy limitations or specific features. Many life insurance companies have placed, but are not required to place, a brief description of the coverage provided on the cover page of their life insurance policies and annuity contracts. Placing such a brief description provides additional consumer protection and allows department personnel to more easily assist consumers with policy questions.
- The insurance code does not specifically require life insurers to maintain life insurance records that affect the legal effect of a life insurance policy, annuity contract, or certificate of life insurance. This can be a problem for a beneficiary when the insured's death occurs many years after issue. The department is often contacted by beneficiaries that have in their possession a life insurance policy but have been informed by the insurer that they have no record of the policy. This problem is especially prevalent in the case of insurers that have merged.
- The change to 31A-22-501 is simply a technical change to allow the addition of section 31A-22-501.1.
- Utah allows corporate owned life insurance (COLI) but limits it to the amount of unfunded liabilities for the employees' benefit program. The insured individuals have no policy rights. Because the employer applies for the coverage, pays the premium, and receives the benefit, the appropriate vehicle for this type of coverage is a group policy, however, requirements for group coverage, such as conversion rights, issuance of individual certificates, and other notice requirements hindered its use. COLI can be an appropriate product and its use

should not be unduly limited. The abuses of COLI in other states are prevented by language in 31A-21-104, Insurable Interest and Consent.

- Coverage issued to creditor groups that insure debtors and credit union groups is not required to contain conversion rights, therefore, these two groups should not be subject to the requirement to provide a notice of the right to convert coverage. The two code sections were not updated when the notice of conversion rights requirement was added to the Code.

Effects of Legislation

- Makes permissive a requirement that the commissioner make rules to establish standards for materials used in the solicitation or sale of life insurance.
- Requires each life insurance policy and annuity contract to have printed on the cover page a brief description that includes the type of insurance, whether it is participating or not, any significant limitation to the coverage, and any significant feature included in the product.
- Requires insurers to maintain records that affect the legal effect of a life insurance policy, annuity contract, or certificate of life insurance for the length of the policy term plus five years.
- Creates and defines an employer group category for corporate owned life insurance (COLI) and exempts the employer groups' life insurance policies from certain code requirements.
- Exempts creditor groups that insure debtors and credit union groups from the requirement that they notify their members of conversion rights.
- Creates an employer group category to effect the COLI changes.

Benefits of Legislation

- Changes the commissioner's rule-making authority to create rules needed in response to situations that come to the department's attention with regard to the solicitation or sale of life insurance products to Utah consumers from mandatory to permissive.
- Provides additional protection for consumers by requiring a short description of the policy on the policy's cover page. The description will be in general terms so that the consumer can better understand the coverage purchased. When the

consumer contacts the insurance department for assistance, the description will assist the department in providing a more specific answer for the consumer.

- Assures insureds and beneficiaries that records affecting the legal effect of a life insurance policy, annuity contract, or certificate of life insurance will be retained by the insurer for the life of the term of the contract plus an additional five years after the contract has terminated.
- Allows the insurance industry to issue a group life insurance policy for the purpose of corporate owned life insurance (COLI) instead of an individual policy for each insured. A single group policy is more convenient, efficient, and has cost savings for the insurer and the corporation.
- Deletes the conversion notice requirement for creditor groups that insure debtors because creditor group insurance does not contain policy conversion rights.
- Allows creation of the employer group category defined in 31A-22-501.1 to effect the COLI changes.

Support for Legislation

- This bill comes from the Utah Insurance Department.
- The requirement of a coverage description is now included in the national standards for life insurance and annuities as proposed by the National Association of Insurance Commissioners and agreed to by the life insurance industry.